

STERISYSTEMS LTD.

ANNUAL REPORT

1971

HEAD OFFICE

47 Baywood Road - - - - - Toronto (Rexdale), Ontario

BRANCH OFFICES

8475 Decarie Boulevard - - - - - Montreal, P.Q.

796-9 Alderbridge Way - - - - - Vancouver (Richmond), British Columbia

STERISYSTEMS LTD.

DIRECTORS

Peter Ackerman Allen

Michael Blythe Harding

Paul Goforth Jeffrey *

Marcel Jean Laviolette †

Michael James Needham †

Gerald James Risby * †

Donald Colin Webster *

*members of executive committee

†members of audit committee

OFFICERS

Donald Colin Webster - - - - - *Chairman of the Board*

Paul Goforth Jeffrey - - *President and Chief Executive Officer*

Douglas Henry Last - - - - - *Vice-President*

Michael John Russell - - - - - *Secretary-Treasurer*

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company

Toronto, Ontario

SOLICITORS

McMillan, Binch

Toronto, Ontario

BANKERS

The Toronto-Dominion Bank

Rexdale, Ontario

AUDITORS

Thorne, Gunn, Helliwell & Christenson

Toronto, Ontario

REPORT OF THE DIRECTORS

On behalf of the Board of Directors, I am pleased to present the first Annual Report as a public company. The year 1971 was the fourth year of operations for the Company and produced substantial increases in revenue and profit, as well as improving working capital. The following comparative statistics reflect the Company's progress:

At Year End	Fiscal Year Ended In December	
	1971	1970
Number of Operating Hospitals	126	88
Number of Beds Wired	30,857	21,907
Total Revenue	\$1,802,992	\$1,086,782
Income before Interest, Depreciation and Amortization and Income Taxes	\$776,118	\$328,140
Profit (loss) for period	\$374,520	\$ (9,683)
Earnings per share —		
before dilution	\$1.33	\$ (.33)
fully diluted	\$1.17	\$.06

(See note 10 to financial statements)

In May of 1971, Sterisystems became a public company and issued shares by way of a public underwriting totalling \$1.0 million. This enabled the Company to repay \$300,000 of current indebtedness, prepay \$425,000 of long-term notes, and provided funds for an increased number of hospital system installations. Following the public offering, the Company renegotiated its bank indebtedness and obtained a term loan of \$1,250,000.

During the year, the Company's working capital deficit was reduced by \$1,125,280, shareholders' equity was increased by \$1,365,681 to \$2,683,958, and investment in hospital rental equipment and installations was increased by \$1,098,063.

The Company serves the Canadian hospital market with a specialized television service, STERIVISION, for the entertainment of hospital patients. By the end of 1971, the Company's service had been accepted by 126 Canadian hospitals over 100 beds in size.

In addition, the Company has two other divisions, STERICOMM and STERIMED. The STERICOMM

Division sells, or leases, to hospitals a broad range of communication and video equipment. This includes closed circuit television, internal hospital communication systems that permit audio and visual contact between hospital staff, and between staff and patient, and also hospital bed and room status systems; fire, smoke and electrical hazard detection devices.

Whereas in past years the Company's main sales effort has been concentrated on hospital television and communications systems, in May 1971, the STERIMED Division was created to broaden the service provided to Canadian hospitals. This Division is concentrating on the medical specialty field rather than competing in the volume medical commodity markets.

The Company has received Canadian appointment, in most cases exclusive, to distribute a number of U.S. and European medical instrumentation and disposable product lines, some of which items are new to the medical field. These include advanced technology electro-surgery systems, surgical illuminators, neuro-stimulators for intractable pain, blood filters for open heart surgery and transfusions, heart lung machine and ancillary equipment, cystoscope systems with improved optics and Kiil dialyzers and disposables for home and hospital use. Hemodialysis concentrate is the first of a number of products we propose to introduce to the artificial kidney field bearing the STERIDYAL trademark. We describe some of these products in greater detail in this report.

The outlook for all divisions is encouraging and we look forward to continued growth in both revenue and earnings. We are very appreciative of the goodwill of hospital administration and staff, and the medical profession that we serve. The Board of Directors also expresses its sincere appreciation to all employees of the Company for their dedication and enterprise that has made possible our continued success.

On behalf of the Board of Directors

P. G. Jeffrey
President

April 17th, 1972.

STERISYSTEMS LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31, 1971

(with comparative figures for 1970)

	1971	1970
Revenue - - - - -	\$1,802,992	\$1,086,782
Cost of sales and expenses other than undernoted - - - - -	1,041,799	775,264
Income before the following items - - - - -	761,193	311,518
Interest including interest on long-term debt 1971, \$98,603; 1970, \$86,475 -	134,356	146,948
Depreciation and amortization - - - - -	267,242	190,875
	401,598	337,823
Income (loss) before income taxes and extraordinary items - - - - -	359,595	(26,305)
Income taxes - - - - -	167,000	
Income (loss) before extraordinary items - - - - -	192,595	(26,305)
Extraordinary items		
Gain on sale of investment - - - - -	14,925	
Gain on freeing of the Canadian dollar - - - - -		16,622
Income tax reduction (note 7) - - - - -	167,000	
	181,925	16,622
Net income (loss) for the year - - - - -	\$ 374,520	\$ (9,683)
Earnings (loss) per share (note 10)		
Income (loss) before extraordinary items - - - - -	\$.54	\$ (.42)
Net income (loss) for the year—before dilution - - - - -	\$1.33	\$ (.33)
—fully diluted - - - - -	\$1.17	\$.06

CONSOLIDATED STATEMENT OF DEFICIT

Year Ended December 31, 1971

(with comparative figures for 1970)

	1971	1970
Deficit at beginning of year - - - - -	\$ 352,273	\$ 342,590
Net income (loss) for the year - - - - -	374,520	(9,683)
	22,247	(352,273)
Dividends on Class A preferred shares - - - - -	26,598	
	(4,351)	(352,273)
Cost of financing written off - - - - -	93,691	
Deficit at end of year - - - - -	\$ 98,042	\$ 352,273

STERISYSTEMS LTD.

(Incorporated under the laws of Canada)
and subsidiary companies

CONSOLIDATED BALANCE SHEET - DECEMBER 31, 1971

(with comparative figures at December 25, 1970)

ASSETS

	<u>1971</u>	<u>1970</u>
CURRENT ASSETS		
Accounts receivable - - - - -	\$ 193,859	\$ 108,922
Sundry receivables and deposits - - - - -		23,137
Inventory valued at lower of cost and net realizable value - - - - -	98,236	77,996
Prepaid expenses - - - - -	17,160	33,554
	<u>309,255</u>	<u>243,609</u>
OTHER ASSETS		
Television sets and materials for use in rental equipment and hospital installations, at cost - - - - -	260,824	196,957
Deferred engineering costs - - - - -	6,000	11,370
Land, at cost (option in 1970) - - - - -	53,469	10,000
Other receivables - - - - -	28,224	26,848
	<u>348,517</u>	<u>245,175</u>
FIXED ASSETS (note 2)		
Rental, hospital installations and other equipment and leasehold improvements - - - - -	3,549,517	2,426,260
Less accumulated depreciation and amortization - - - - -	523,997	265,395
	<u>3,025,520</u>	<u>2,160,865</u>
GOODWILL, including \$651,512 which represents excess of cost of shares of subsidiary companies over net tangible assets at date of acquisition -	675,936	675,936
PATENT LICENCES, at cost, less amortization (note 5) - - - - -	135,000	145,000
INCORPORATION EXPENSE - - - - -	3,806	3,806
	<u>\$4,498,034</u>	<u>\$3,474,391</u>
Approved by the Board		
Paul Goforth Jeffrey, <i>Director</i>		
Donald Colin Webster, <i>Director</i>		

AUDITORS' REPORT

To the Shareholders of Sterisystems Ltd.

We have examined the consolidated balance sheet of Sterisystems Ltd. and subsidiary companies as at December 31, 1971 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

LIABILITIES

	1971	1970
CURRENT LIABILITIES		
Bank overdraft - - - - -	\$ 36,579	\$ 104,469
Bank loan, secured by assignment of book debts - - - - -	120,000	875,000
Accounts payable and accrued liabilities - - - - -	260,171	331,941
Dividends payable - - - - -	12,000	
Principal due within one year on long-term debt - - - - -	158,226	335,200
	<u>586,976</u>	<u>1,646,610</u>
LONG-TERM DEBT (note 3) - - - - -	<u>1,227,100</u>	<u>509,504</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (notes 4 and 8)

Authorized

96,000 80¢ Cumulative convertible Class A preferred shares
redeemable at par value of \$13.50 each

60,000 6% (8% up to July 1, 1971) Cumulative convertible
Class B preferred shares redeemable at par value of
\$10.00 each

500,000 Common shares without par value

Issued

60,000 Class A preferred shares - - - - - 810,000

60,000 Class B preferred shares - - - - - 600,000 600,000

240,150 Common shares (1970 — 210,950 as subdivided) - 1,372,000 1,070,550

2,782,000 1,670,550

DEFICIT - - - - - 98,042 352,273

2,683,958 1,318,277

\$4,498,034 \$3,474,391

Long-term lease (note 6)

Contingent liability (note 9)

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 9, 1972

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

STERISYSTEMS LTD.

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended December 31, 1971

(with comparative figures for 1970)

	<u>1971</u>	<u>1970</u>
Source of funds		
Operations		
Net income (loss) for the year - - - - -	\$ 374,520	\$ (9,683)
Items not involving current funds		
Depreciation and amortization - - - - -	267,242	190,875
Other - - - - -	5,370	
	<u>647,132</u>	<u>181,192</u>
Increase in long-term debt- - - - -	1,300,822	
Issue of Class A preferred shares - - - - -	810,000	
Issue of common shares - - - - -	301,450	680,050
Decrease in television sets and materials for use in rental equipment and hospital installations - - - - -		146,406
	<u>3,059,404</u>	<u>1,007,648</u>
Application of funds		
Acquisition of subsidiary company plus working capital deficiency acquired, \$5,063 - - - - -		36,563
Increase in other assets		
Television sets and materials for use in rental equipment and hospital installations - - - - -	63,867	
Land - - - - -	43,469	
Non-current receivables - - - - -	1,376	26,848
Additions to fixed assets - - - - -	1,121,897	1,189,038
Increase in goodwill - - - - -		10,500
Increase in incorporation expense - - - - -		725
Decrease in non-current portion of long-term debt - - - - -	583,226	576,452
Dividends on Class A preferred shares - - - - -	26,598	
Cost of financing written off - - - - -	93,691	
	<u>1,934,124</u>	<u>1,840,126</u>
Increase (decrease) in working capital position - - - - -	1,125,280	(832,478)
Working capital deficiency at beginning of year - - - - -	<u>1,403,001</u>	<u>570,523</u>
Working capital deficiency at end of year - - - - -	<u>\$ 277,721</u>	<u>\$1,403,001</u>

STERISYSTEMS LTD.

and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1971

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Sterisystems Ltd. and its wholly owned subsidiary companies.

2. FIXED ASSETS

	1971			1970
	Cost	Accumulated depreciation	Net	Net
Rental equipment - - - - -	\$1,325,761	\$204,307	\$1,121,454	\$ 833,831
Hospital installations equipment - - - - -	2,067,047	298,895	1,768,152	1,099,197
Installations in progress - - - - -	39,210		39,210	143,927
Other equipment - - - - -	87,662	15,970	71,692	56,167
Leasehold improvements - - - - -	29,837	4,825	25,012	27,743
	<u>\$3,549,517</u>	<u>\$523,997</u>	<u>\$3,025,520</u>	<u>\$2,160,865</u>

Rental equipment consists mainly of television sets which, in the opinion of management, have a life expectancy of 10 to 15 years. Depreciation is being provided at 10% of original cost on a straight-line basis from the date of commencement of use in operations. Hospital installation equipment is being depreciated over the term of the contract plus 1 year.

3. LONG-TERM DEBT

	1971	1970
Bank term loan at the rate of 1½% above the bank's prime rate and secured by demand floating charge debentures and an assignment of book debts. The loan is evidenced by demand notes with repayments of \$10,000 monthly during 1972, \$25,000 monthly during 1973 and \$30,000 monthly thereafter - - - - -	\$1,250,000	
Sundry loans at varying rates and maturities - - - - -	135,326	\$ 844,704
	<u>1,385,326</u>	<u>844,704</u>
Less principal included in current liabilities - - - - -	158,226	335,200
	<u>\$1,227,100</u>	<u>\$ 509,504</u>

4. CAPITAL STOCK

(a) During the year the company obtained supplementary letters patent by which it became a public company and creating the following changes in its capital structure:

- subdividing the 100,000 existing authorized common shares on a 5 for 1 basis into 500,000 common shares;
- creating 96,000 80¢ cumulative convertible redeemable Class A preferred shares of the par value of \$13.50 each;
- cancelling its 40,000 unissued 8% cumulative redeemable preferred shares of the par value of \$10 each;
- changing the 60,000 issued and outstanding 8% cumulative redeemable preferred shares of the par value of \$10 each into 60,000 convertible re-

deemable Class B preferred shares of the par value of \$10 each with an annual cumulative dividend rate of 8% up to and including July 1, 1971 and 6% thereafter;

- the Class A preferred shares are redeemable at a premium which declines in set amounts from 106% of their par value up to May 31, 1973 to their par value after May 31, 1976;
- each Class A preferred share is convertible at the holder's option into one fully paid common share up to and including April 1, 1981.

Each holder of Class B preferred shares is entitled at his option up to and including May 31, 1972 to convert each lot of fifty fully paid Class B preferred shares held by him into thirty fully paid Class A preferred shares and eight fully paid common shares.

4. CAPITAL STOCK (continued)

(b) During the year the company issued 60,000 80¢ Class A preferred shares for a cash consideration of \$810,000 and 29,200 common shares for a cash consideration of \$322,000 against which \$20,550 of finance costs were written off.

(c) At December 31, 1971 options are outstanding on 42,500 common shares as follows:

<u>Expiry date</u>	<u>Shares</u>	<u>Price per share</u>
May 31, 1972 to		
May 31, 1976 - - -	7,500	\$8 to \$16
December 31, 1973 - -	25,000	\$10
July 1, 1973 - - - -	5,000	\$12
June 30, 1974 to		
June 30, 1976 - - -	5,000	\$13.50 to \$17.50

5. PATENT LICENCES

The patent licences are being amortized on a straight-line basis over 17 years.

6. LONG-TERM LEASE

The company rents a building under a long-term lease which expires November 30, 1979, the annual rental for which is \$19,500.

7. INCOME TAXES

The tax reductions of \$167,000 are shown as extraordinary credits and arise from the carry-forward of prior years' losses.

The company has \$286,000 of loss carry-forwards, the tax effect of which has not been recorded in the accounts and are available for future tax reductions.

8. DIVIDENDS ON CAPITAL STOCK

(a) Dividends on the Class B preferred shares have not been paid to December 31, 1971 and would amount to approximately \$162,000.

(b) Under the company's bank term loan agreement (note 3), the company may not declare or pay dividends on its common shares without the prior consent of the bank as long as the term bank loan is outstanding.

9. CONTINGENT LIABILITY

The company has guaranteed a bank loan to a subsidiary company of \$44,400.

10. EARNINGS PER SHARE

Basic earnings per share have been calculated using the weighted average number of shares outstanding during the year (1970 as subdivided) and are after deducting cumulative dividends on the outstanding Class A and B preferred shares.

Fully diluted earnings per share have been calculated assuming full conversion of the outstanding Class A and B preferred shares, exercise of options and adjustments to income resulting from these assumptions.

Fully diluted earnings per share for 1971 are as follows:

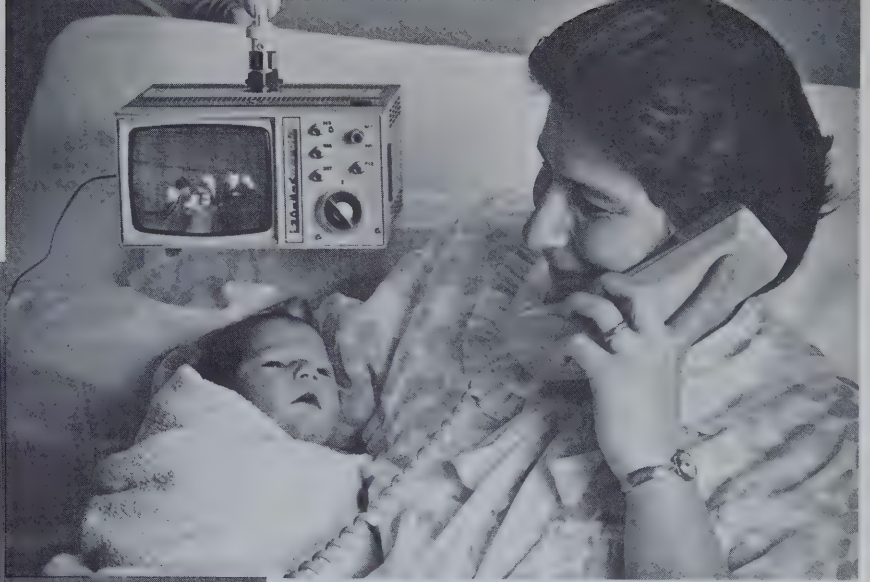
Income before extraordinary items - - - - -	\$.56
Net income for the year - - - - -	\$1.17

11. REMUNERATION OF DIRECTORS AND OFFICERS

	<u>1971</u>	<u>1970</u>
Number of directors - - - - -	7	11
Aggregate remuneration of directors as directors - - - - -	Nil	Nil
Number of officers - - - - -	4	3
Aggregate remuneration of officers as officers - - - - -	\$88,000	\$77,000
Number of officers who are directors -	2	1

12. COMPARATIVE FIGURES

The 1970 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1971.



As illustrated above, the York Finch Hospital in Toronto provides a new closed circuit "Visit Channel" which is made available through our Sterivision patient entertainment system. Patients are now able to see and talk with restricted visitors. The introduction of closed circuit equipment to Sterivision hospitals opens up an important market for hospital-originated video programming.

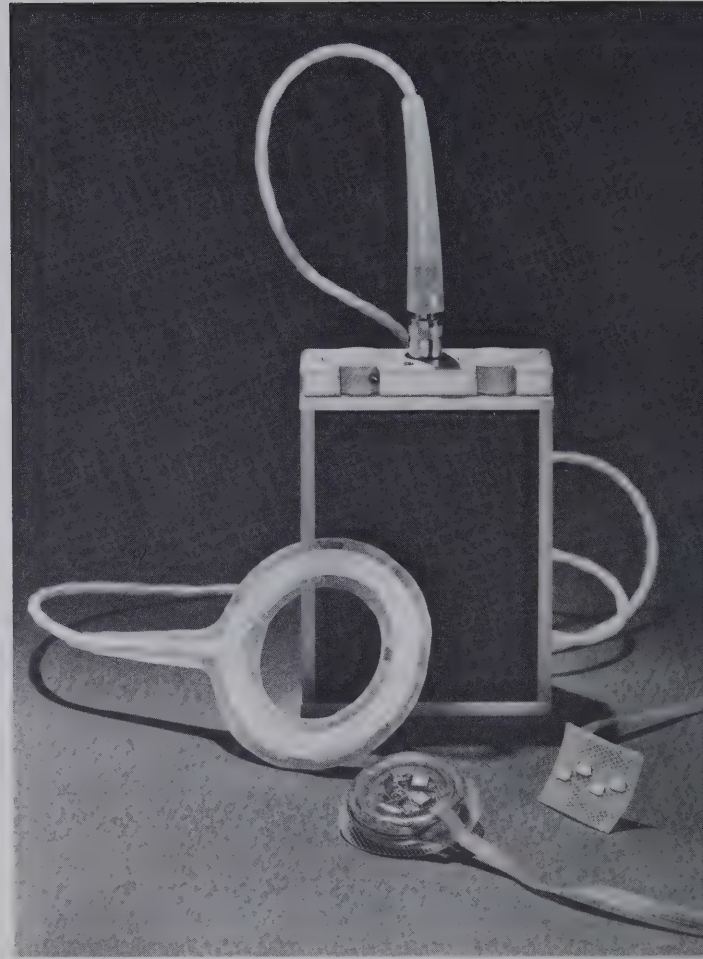
The introduction of our new patient entertainment centre was a major factor in the rapidly growing acceptance, by Canadian hospitals, of the Sterisystems concept. This new Sterivision receiver offers both AM and FM radio, as well as the small screen personalized television picture.



Delivery to the Oshawa General Hospital, in 1971, of our largest Nurse Call installation to date, establishes the Company as a leader in providing a total audio-visual and patient entertainment communication system to Canadian hospitals.

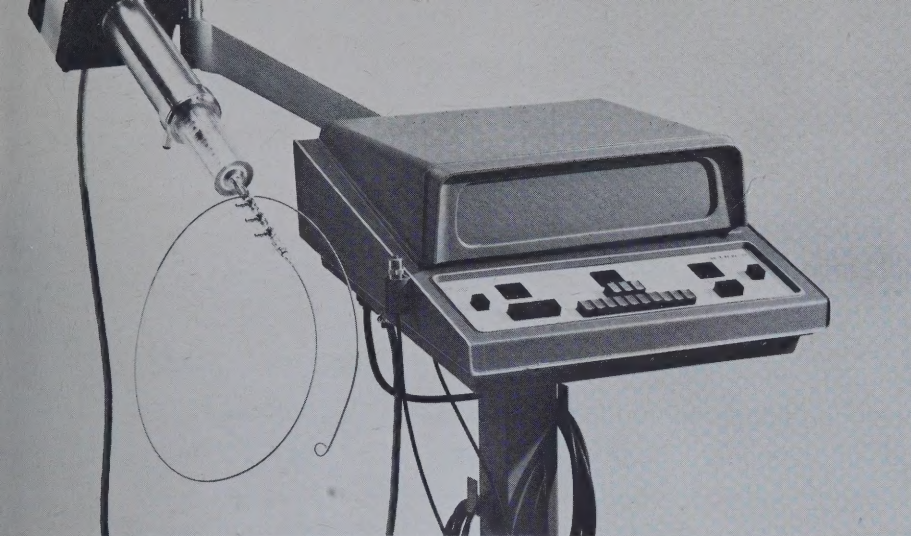


The solid state electrosurgery unit pictured is an example of miniaturization made possible by electronic technology. This unit, weighing 26 pounds, generates double the cutting power of units as much as ten times its weight. This unit has brought increased safety into the operating room with an exclusive grounding system that eliminates risk of patient burns.



Ultrasonic fetal monitors can detect the fetal heart at ten weeks. The small, battery-operated, portable unit is used in hospitals, and in doctor's offices, for screening purposes. The larger unit is used to continuously monitor high-risk maternity patients during labour. The monitor will alert the physician to fetal distress during delivery and enable him to take preventative action. In the four years that fetal monitors have been used, thousands of lives have been saved.





The products shown are used in diagnostic cardiology and selective angiography. The equipment is used to introduce an X-ray detectable fluid into vital organs and blood vessels on a selective and super-selective basis, i.e., heart, coronary vessels, cerebral vessels, etc.

The Neuro-Stimulators pictured are implants for control of intractable pain. Over ten years' experimental and clinical background is involved, with many up to five years' implant. An electrode is placed on the spinal cord by a neurosurgeon, a lead from the electrode attaches to an implanted radio receiver and a loop antenna is taped to the skin over the implanted receiver. The loop antenna connects to a compact R.F. transmitter that the patient can carry in a pocket. With transmitter turned on, it transmits a signal that is carried through to the electrode. This R.F. signal effectively jams the transmission of pain. We believe the eventual demand for Neuro-Stimulators will be substantially larger than the recent demand for heart pacemakers.

SteriDyal Hemodialysis Concentrate is the first of a number of products in the artificial kidney field that will bear the SteriDyal trademark. The Company is presently supplying a number of major Canadian hospitals with both SteriDyal and the Kiil dialyzers pictured. Both products are also being used in home programs where the kidney patient performs all dialysis functions in their home. The artificial kidney market is one of the fastest-growing in the medical field. Canada accounts for approximately 30% of the current total North American requirements due to greater government support in this Country. The Company's intent is to develop a complete product line of disposables in this field, of Canadian origin.



The large filter pictured is used in open heart surgery to filter undesirable adhesive blood elements and foreign material. It can also be used as an efficient air microemboli trap. The efficacy of this filter is well documented in medical papers. The inline transfusion filter will remove aggregates as small as 10 microns in diameter. This filter assists in protecting the "non-renewable" lung and other vital organs.

FOUR-YEAR COMPARISON

OPERATIONS:	1971	1970	1969	1968
Number of operating hospital installations at year end	126	88	49	11
Number of beds wired at year end - - - - -	30,857	21,907	12,233	3,470
Revenue - - - - -	\$1,802,992	\$1,086,782	\$ 363,686	\$ 71,726
Net profit (loss) before interest, depreciation and amortization and income taxes - - - - -	776,118	328,140	(133,772)	(71,584)
Interest - - - - -	134,356	146,948	40,170	2,899
Depreciation and amortization - - - - -	267,242	190,875	79,313	16,508
Income tax (recovered) - - - - -			(1,656)	
Profit (loss) for the year - - - - -	\$ 374,520	\$ (9,683)	\$ (251,599)	\$ (90,991)
Earnings per share—fully diluted - - - - -	\$1.17	\$0.06		
Shares outstanding at year end				
Class A preferred - - - - -	60,000			
Class B preferred - - - - -	60,000	60,000	60,000	60,000
*Common - - - - -	240,150	210,950	119,500	106,250

*after giving effect to a 5 for 1 sub-division by supplementary letters patent dated May 10, 1971.

FINANCIAL:

Net investment in rental, hospital installations and other equipment and leasehold improvements - -	\$3,025,520	\$2,160,865	\$1,073,861	\$ 315,569
Long-term debt, net of current portion - - - - -	1,227,100	509,504	1,085,956	
Shareholders' equity - - - - -	2,683,958	1,318,277	647,910	821,509

